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District Manager

November 5, 2002

Mr. J. Tyler Carlson
Western Area Power Administration
Desert Southwest Regional Manager
P.O. Box 6457
Phoenix, AZ 85005-6457

Dear Mr. Carlson:

Electric District Number One and Electrical District No. 3, Pinal County ("ED1/3") offer the following comments on the proposal of the Western Area Power Administration ("Western") to re-market power from the Parker-Davis Project ("Project"), as published in the Federal Register, Volume 67, Number 153 on Thursday, August 8, 2002.

The Districts qualify as preference customer, as defined by federal reclamation law and Western policies, and have complied with the Integrated Resource Planning requirements of Western's Energy Planning and Management Program ("EPAMP") regulations.

A. ED-One / 3 Support Western's Proposed Re-Marketing Plan

ED-One/3 support Western's proposal to use the Power Marketing Initiative ("PMI") in Subpart C of the EPAMP to extend existing Parker-Davis Project power contracts. Under that proposal, ED-One/3 and other existing Parker-Davis customers would receive 94 percent of their current power allocations for a period of 20 years. Six percent of the available Parker-Davis resource would be set aside to allocate to new preference customers, including Native American tribes. To the extent existing customers' allocations are reduced by the resource set aside, new customers would be required to reimburse existing customers for undepreciated replacement advances. Western also proposes to waive the requirement for "utility status" for Native American tribes.

ED-One / 3 believe that the PMI regulations are applicable to Parker-Davis power and such application is well-grounded in precedent and policy. We urge quick action on the proposal.

B. Parker-Davis Power is a Vital Part of ED-One/ 3's Resource Mix

Certainty about our Parker-Davis allocations will provide important resource stability for ED-One/ 3 and for the consumers we serve. In light of the recent dramatic volatility in the electricity markets in California and the West, the stability that renewal of long-term contracts will provide to ED-One/ 3 is more valuable than ever. Certainty as to the amount and duration of our future Parker-Davis allocation will also enable ED-One/3 to engage in effective long-term planning to ensure our ability to meet current and future load demand.

ED-One/3's current allocation of Parker-Davis power is approximately fourteen percent of our total summer resource portfolio. The Parker-Davis allocation is therefore a relatively significant part of ED-One/3's total resources, and is critical to our ability to maintain affordable electric rates. If ED-One/ 3 allocations of Parker-Davis power were eliminated or significantly reduced, we would have to develop a substitute resource or purchase replacement power from the market. These additional costs would have to be passed directly through to our retail customers.

ED-One/ 3 allocations of Parker-Davis power plays an important role in our local and regional economy. Although the Districts are currently located in a largely rural area, urbanization of the area is proceeding rapidly. The Districts' long-term objectives include continuing to provide low cost, reliable energy to our customers and enhance customer financial stability through the provision of services which enhance property values and provide long-term stability in electric power rates. Our ability to continue to meet both these objectives and the challenges associated with urbanization depends in no small part upon the stability provided by our long-term contractual resources.

C. Western's Proposal is in the Best Interest of the United States

Long-term contract extensions will help ensure timely repayment of the federal investment in the Parker-Davis Project by providing relative assurance of a continuing revenue stream to the U.S. Treasury. Parker-Davis power customers are responsible for repayment of all Parker-Davis power facilities, with interest.

Western's prior contract experience with existing Parker-Davis customers demonstrate their creditworthiness and dependability and underscores for the government the value of a long-term relationship.

D. There is Strong Precedent for Applying the PMI to the Parker-Davis Project

There is strong Precedent for Western's proposal to apply it to the Parker-Davis Project. Since 1995, Western has successfully implemented the PMI at the Pick-Sloan Missouri Basin Program – Eastern Division, the Loveland Area Projects, the Salt Lake City Area/Integrated Projects and the Central Valley Project.

The central features of the PMI, which assure existing customers that they will receive a "major portion" of their current allocations while allowing Western the flexibility to offer a "modest percentage" of the resource to new customers, represent a balanced, equitable and tested approach to contract renewal. The PMI has worked well for Western, for the federal government and for customers.

E. Western Should Consider Alternative Elements for the Reserve Pool

Application of the PMI to the Parker-Davis Project also reinforces Western's policy of "regional equity" by treating preference customers in the Parker-Davis marketing area in a manner substantially identical to the way customers were treated in the Pick-Sloan Missouri Basin Project, Colorado River Storage Project and Central Valley Project. There are slight differences in the size and timing of the resource "set aside" for new customers at each project. Western should evaluate whether the six percent proposed for the Parker-Davis Project is too large, considering how small the Project resource base is.

Western should also consider reserving power for the reserve pool only from a contractor's currently-designated "withdrawable" firm power where the contractor has both non-withdrawable and withdrawable allocations. This portion of the reserve pool could be redesignated non-withdrawable and still leave adequate withdrawable power in the allocations. It has been more than 15 years since power was withdrawn for priority use. That stability indicates that this adjustment would not disturb project purposes or needs.

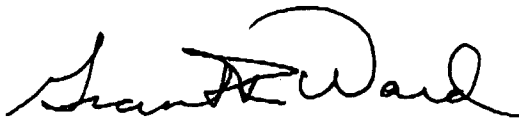
F. Application of the PMI Will Extend Positive Environmental Effects

One of the goals of the EPAMP is to encourage efficient energy use by existing Western customers by requiring Integrated Resource Planning (IRP) in exchange for Western's commitment to extent long-term firm power contracts. ED-One/ 3 have fully complied with Western's IRP requirements and believe that Western must now honor its commitment by executing a 20-year renewal of ED-One/ 3's contracts for Parker-Davis Power. Western effectively recognized this "quid pro quo" in its Notice of the final 2004 Power Marketing Plan for the Sierra Nevada Region. (Federal Register, Volume 64, Number 122, Friday, June 25, 1999)

Western's EPAMP Environmental Impact Statement (EIS) also noted that longer term Contracts are positive for the environment because customers will be more likely to invest in renewable resources if they have a stable foundation of federal hydropower. The EIS indicated that short-term contracts could lead customers to develop resources that are cheaper in the short term, but more adverse environmentally.

Thank you for the opportunity to comment on this important proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Grant R. Ward". The signature is fluid and cursive, with the first name "Grant" and last name "Ward" being clearly legible, and "R." in the middle.

Grant R. Ward
General Manager